

**REPORT OF THE AUDIT OF THE
FORMER GREENUP
COUNTY CLERK**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER GREENUP COUNTY CLERK**

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the former Greenup County Clerk's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$27,997 from the prior year, resulting in excess fees of \$12,923 as of December 31, 2005. Revenues decreased by \$259,804 from the prior year and expenditures decreased by \$231,807.

Debt Obligations:

The former County Clerk's office was committed to the following lease agreements as of December 31, 2005:

- A. The office of the former County Clerk was committed to a lease agreement with Software Management for computer equipment and software. The agreement is renewable on an annual basis and requires monthly payments of \$1,896.
- B. The office of the former County Clerk is committed to an operating lease agreement with Chito Ymalay, M.D., Greenup County, Kentucky, for office space at the Flatwoods branch of the former County Clerk's office. The agreement requires annual payments of \$9,000 and expires on December 31, 2006.
- C. The office of the former County Clerk is committed to an operating lease agreement with Pitney Bowes Credit Corporation for a mailing machine. The agreement commenced on April 30, 2001, and requires quarterly payments of \$666 for 5 years. The total balance of the agreement was \$666 as of December 31, 2005.
- D. The office of the former County Clerk is committed to an operating lease agreement with Pitney Bowes Credit Corporation for a copier. The agreement commenced on April 30, 2001, and requires monthly payments of \$164 for 4 years. The total balance of the agreement was \$1,480 as of December 31, 2005.

Report Comment:

- The Former County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The former County Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Robert Carpenter, Greenup County Judge/Executive
Honorable Donald L. Davidson, Former Greenup County Clerk
Honorable Ella H. Hall, Greenup County Clerk
Members of the Greenup County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Greenup County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2006 on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Robert Carpenter, Greenup County Judge/Executive
Honorable Donald L. Davidson, Former Greenup County Clerk
Honorable Ella H. Hall, Greenup County Clerk
Members of the Greenup County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Greenup County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 23, 2006

GREENUP COUNTY
DONALD L. DAVIDSON, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Fees For Services	\$	17,927
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Fiscal Court		9,317
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 786,867	
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Usage Tax	3,389,767	
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Tangible Personal Property Tax	2,616,541	
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Other-

Marriage Licenses	18,600	
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Deed Transfer Tax	75,788	
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Delinquent Tax	594,330	7,481,893
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	21,765	
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Real Estate Mortgages	61,551	
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Chattel Mortgages and Financing Statements	89,110	
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Powers of Attorney	2,558	
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Lien Fees	10,090	
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All Other Recordings	49,744	
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Charges for Other Services-

Copywork	7,605	
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Postage	540	242,963
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Other:

Overpayments and Refunds	10,531	
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Miscellaneous	2,077	12,608
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Interest Earned		3,464
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Total Revenues		7,768,172
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The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
 DONALD L. DAVIDSON, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	598,999	
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Usage Tax		3,287,984	
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Tangible Personal Property Tax		917,836	
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Licenses, Taxes, and Fees-

Marriage Licenses		6,710	
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Delinquent Tax		61,828	
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Legal Process Tax		23,086	\$ 4,896,443
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Payments to County:

Tangible Personal Property Tax		163,737	
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Delinquent Tax		48,043	
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Deed Transfer Tax		72,158	283,938
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Payments to Other Districts:

Tangible Personal Property Tax		1,430,353	
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Delinquent Tax		348,638	1,778,991
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Payments to Sheriff			11,307
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Payments to County Attorney			75,754
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Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries		394,976	
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Employee Benefits-

Employer's Share Social Security		34,787	
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Employer's Paid Health Insurance		24,000	
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Contracted Services-

Cleaning		5,640	
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Advertising		942	
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Professional Services		36,014	
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Materials and Supplies-

Office Supplies		22,329	
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The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
DONALD L. DAVIDSON, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	13,102
Refunds and Overpayments		11,288
Postage		7,209
Election Expenses		74
Maintenance and Repairs		5,274
Rent		10,104
Utilities		9,673
Miscellaneous		1,244

Capital Outlay-

Office Equipment	<u>18,394</u>	\$ 595,050
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Debt Service:

Lease Purchases	<u>24,018</u>	
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Total Expenditures		<u>\$ 7,665,501</u>
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Net Revenues		102,671
Less: Statutory Maximum	76,652	
Expense Allowance	3,600	
Training Incentive Benefit	<u>3,194</u>	<u>83,446</u>

Excess Fees Before 2006 Expenditures		19,225
Less: Payments Approved By Fiscal Court (Note 7)		<u>6,302</u>

Excess Fees Due County for 2005		12,923
Payments to Fiscal Court		<u></u>

Balance Due Fiscal Court at Completion of Audit*		<u><u>\$ 12,923</u></u>
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*Note - The former County Clerk presented a check to the County Treasurer for the full amount due fiscal court on May 23, 2006.

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the former County Clerk as determined by the audit. KRS 64.152 requires the former County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the former County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The former County Clerk and employees elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$8,890 in July 2003. The entire funds, totaling \$8,890 were expended prior to January 1, 2005. \$239 of interest had accumulated on this grant as of December 31, 2004. As of December 31, 2005, \$2 of interest had accumulated on this grant account, thus the remaining funds available were \$241.

Note 5. Leases

The former County Clerk's office was committed to the following lease agreements as of December 31, 2005:

- A. The office of the former County Clerk was committed to a lease agreement with Software Management for computer equipment and software. The agreement is renewable on an annual basis and requires monthly payments of \$1,896.
- B. The office of the former County Clerk is committed to an operating lease agreement with Chito Ymalay, M.D., Greenup County, Kentucky, for office space at the Flatwoods branch of the former County Clerk's office. The agreement requires annual payments of \$9,000 and expires on December 31, 2006.
- C. The office of the former County Clerk is committed to an operating lease agreement with Pitney Bowes Credit Corporation for a mailing machine. The agreement commenced on April 30, 2001, and requires quarterly payments of \$666 for 5 years. The total balance of the agreement was \$666 as of December 31, 2005.
- D. The office of the former County Clerk is committed to an operating lease agreement with Pitney Bowes Credit Corporation for a copier. The agreement commenced on April 30, 2001, and requires monthly payments of \$164 for 4 years. The total balance of the agreement was \$1,480 as of December 31, 2005.

Note 6. Escrow Account

The former County Clerk has a certificate of deposit and a checking account, totaling \$57,778 as of December 31, 2005, which consists of an ongoing account originating from unclaimed funds from the purchase of land for public use. The owners and heirs could not be located. The last transaction in the account occurred in November 1979. Since the unclaimed funds have been in possession of the former County Clerk for more than seven years, and the owners cannot be located, the funds should be surrendered to the Department of the Treasury.

Note 7. Subsequent Events

On January 10, 2006, Greenup Fiscal Court approved a motion that allowed the former County Clerk, Donald L. Davidson, to receive payment for expenses related to calendar year 2006 from 2005 excess fees. These expenses totaled \$6,302.

COMMENT AND RECOMMENDATION

GREENUP COUNTY
DONALD L. DAVIDSON, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2005

INTERNAL CONTROL - REPORTABLE CONDITION:

The Former County Clerk's Office Lacks Adequate Segregation Of Duties

The internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The former County Clerk has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recommend the former Clerk's Office implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- All disbursement checks are to be signed by two people and one must be the former clerk
- The former clerk or someone independent of the former clerk's office reviews the bank reconciliations prepared by the bookkeeper
- The official should perform surprise cash counts

Former County Clerk's Response:

None.

INTERNAL CONTROL - MATERIAL WEAKNESS:

None.

PRIOR YEAR:

None.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Robert Carpenter, Greenup County Judge/Executive
Honorable Donald L. Davidson, Former Greenup County Clerk
Honorable Ella H. Hall, Greenup County Clerk
Members of the Greenup County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Greenup County Clerk for the year ended December 31, 2005, and have issued our report thereon dated May 23, 2006. The former County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Greenup County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Former County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Greenup County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 23, 2006

